

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
March 30, 2011**

A regular meeting of the Nebraska Investment Council convened at 8:36 a.m. at the Embassy Suites in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on March 3, 2011, and published in the Lincoln Journal Star on March 13, 2011. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel
Ms. Phyllis Chambers

MEMBERS ABSENT:

Mr. Norm Riffel
Treasurer Don Stenberg

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Kevin Vandolder, Hewitt EnnisKnupp
Mr. Scott McLerran, Hewitt EnnisKnupp
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Chris Sanders, Nebraska Investment Council
Mr. Joe Spitznagel, Nebraska Investment Council
Ms. Heather Christopher, Hewitt EnnisKnupp
Ms. Rachel Biar, State Treasurer's Office
Mr. Tim Engler, Harding & Shultz
Mr. Gary Bush, AS, State Budget Office
Mr. Stacy Auman, First National Bank Omaha
Ms. Deborah Goodkin, First National Bank Omaha

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:36 a.m. to 8:37 a.m. Ms. Werner-Robertson advised that the Nebraska Open Meetings Act applies and stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE FEBRUARY 25, 2011 MEETING: 8:37 a.m. to 8:38 a.m. Mr. Maginn moved that the March 1, 2011, draft of the minutes of the February 25, 2011, meeting be approved as written. Mr. Dinkel seconded the motion. Ms. Werner-Robinson called for a roll call vote.

VOTING AYE:

Dr. DeFusco
Mr. Maginn
Mr. Dinkel
Ms. Werner-Robertson

ABSENT NOT VOTING:

Mr. Riffel

The motion carried.

COUNCIL MEMBER BUSINESS: 8:38 a.m. to 8:40 a.m. Ms. Werner-Robertson stated that Mr. Riffel was unable to attend today's meeting due to a scheduling conflict. Ms. Werner-Robertson welcomed Ms. Rachel Biar, Assistant State Treasurer who would be representing Treasurer Stenberg at today's meeting. Ms. Werner-Robertson informed the Council that Treasurer Stenberg was attending the National Association of State Treasurers Legislative Conference, in Washington, D.C. Ms. Werner-Robertson indicated that the Council would

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be discussing at today's meeting the investment policy guidelines, asset allocation, and spending policies of each of the Miscellaneous Trusts and General Endowments entities. Also, as requested by the Council at the February Council meeting, Mr. States and Hewitt EnnisKnupp would be providing additional information on non-U.S. debt exposure and more detailed information on the portfolios duration.

REAL ESTATE PORTFOLIO PERFORMANCE AND MANAGER RECOMMENDATION PRESENTATIONS: 8:40 a.m. to 9:45 a.m. Ms. Christopher reviewed the Private Real Estate Third Quarter Performance Report included in the meeting book. The report included an overview of the market, portfolio policy objectives, pacing, and performance. Ms. Christopher indicated that the Private Real Estate performance continued to rebound in the third quarter. Ms. Christopher discussed with the Council the memo included in the meeting book relating to an additional commitment to PRISA Real Estate Core Fund (PRISA I) for both the DB/CBB Plans and the General and Health Care Endowments. Ms. Christopher indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of PRISA. Ms. Christopher discussed the investment merits and concerns associated with the firm. Mr. States said that several changes made to the PRISA I investment guidelines addressed issues that were raised by performance in 2009. Ms. Christopher indicated that Hewitt EnnisKnupp recommends that the Council commit \$20 million to PRISA I for the DB/CBB Plans and \$1.5 million for the General Endowments and the Health Care Endowment (\$21.5 million total). A copy of the presentation was included in the meeting book. Mr. States indicated that he supports HEK's recommendation.

Following discussion by the Council, Dr. DeFusco moved to accept HEK and Mr. States' recommendation to commit to PRISA I \$20 million for the DB/CBB Plans and \$1.5 million for the General Endowments and the Health Care Endowment, pending legal review of the investment documents by the Council's attorney. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Maginn
	Mr. Dinkel
	Ms. Werner-Robertson
	Dr. DeFusco

ABSTENT NOT VOTING:	Mr. Riffel
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The motion carried.

FIXED INCOME PORTFOLIO RISK ASSESSMENT: 9:45 a.m. to 10:25 a.m. As requested by the Council Mr. Vandolder and Mr. McLerran provided additional information on the characteristics of the fixed income portfolio. Their presentation which was included in the meeting book discussed current positioning and risk measures. It also included several strategy allocation options and provided different scenarios on the effects of the options. The Council will continue with this discussion at the July Retreat and requested Hewitt EnnisKnupp provide additional fixed income opportunities at that time.

The Council took a break and reconvened at 10:40 a.m.

GALLIARD CAPITAL MANAGEMENT PORTFOLIO REVIEW: 10:40 a.m. to 11:25 a.m. Mr. States introduced Mr. David Ferry, Senior Director, Mr. Richard Merriam, Managing Partner, and Mr. Erol Sonderegger, Senior Director. Their presentation which was included in the meeting book gave an overview of the firm, the structure of Operating Investment Pool's corporate portfolio which has been managed by Galliard since 2009. They reported on the portfolio's performance, investment strategy, and objectives.

OVERVIEW OF THE MISCELLANEOUS TRUSTS, GENERAL ENDOWMENTS AND THE HEALTH CARE ENDOWMENT: 11:25 a.m. to 11:50 a.m. As indicated earlier by Ms. Werner-Robertson the Council would be reviewing the investment policy guidelines, asset allocation, and spending policies of the internally managed Miscellaneous Trusts, General Endowments and the Health Care Endowment. To begin the review Mr. Jurich and Ms. Winkler provided an overview of each of the funds, commenting on how the investments for each entity are currently being managed. Mr. States indicated that he and staff would be meeting with each entity over the next two months, which will assist the NIC in evaluating the need to change the policies at the July Retreat.

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GENERAL ENDOWMENTS AND HEALTH CARE ENDOWMENT DISCUSSION: 11:50 a.m. to 12:40 p.m. Mr. Vandolder and Mr. McLerran presentation which was included in the meeting book provided additional information on the General Endowments and the Health Care Endowment. The General Endowments include various funds grouped together with similar spending policies and asset allocation. The Legislature determines the spending policy and the NIC determines the asset allocation. Mr. Vandolder and Mr. McLerran reviewed the current asset allocation and provided projections of investment earnings and growth of assets based on different asset allocations, economic environments and spending policies.

The Health Care Endowment includes two funds grouped together with a similar spending policy and asset allocation, the Nebraska Medicaid Intergovernmental Trust and the Nebraska Tobacco Settlement Trust. Contributions are only provided by the Tobacco Settlement Trust. Mr. Vandolder and Mr. McLerran reviewed the Health Care Endowment's current asset allocation and provided projections of investment earnings and growth of assets based on different asset allocations, economic environments and spending policies. HEK's analysis indicated that current spending projections will likely exceed the contributions and expected investment returns; and if the annual spending consistently exceeds contributions by more than approximately \$10 million, the principal balance of the portfolio will likely decline. Mr. States had stated his concern in his September 22, 2010 report to the Legislature on the Sustainability of the Health Care transfer. In order to get a better understanding of how distributed monies are being used, the Council requested that Mr. States contact members of the Appropriations Committee and the State Budget office about their concerns.

The Council took a break and reconvened at 12:52 p.m.

STATE INVESTMENT OFFICER'S REPORT: 12:52 p.m. to 1:33 p.m.

Agency Budget Update: Mr. States reviewed the Agency's February 28, 2011 Budget Report, which was included in the meeting book and reported that the Agency is under-budget for the fiscal year.

Legislative Update: Mr. States reviewed with the Council the status of legislative bills that may have an effect on the NIC. LB 303 would eliminate restriction on investment in certain operations doing business in Northern Ireland. LB 303 was approved by the Governor on March 10, 2011. LB 509 which is on Advanced to Enrollment and Review for Engrossment, changes the date from March 15th to March 31st for the NIC to provide its annual report to the Nebraska Retirement Systems Committee. LB 617 relates to the Administrative Rules process. A listing of the legislative bills was included in the meeting book.

Action Plan, Conferences, and Articles: Mr. States reported the NIC Annual Report to the Legislature was presented on March 15, 2011. The May 25, 2011 Council meeting will be at the Lincoln Embassy Suites in Regents D.

Investment Consultant RFP Update: Mr. States informed the Council that he and staff have been working on the investment consultant RFP and that they plan to use the same framework that was used previously for the investment consultant search. Mr. States described the process and timeline and indicated that the RFP will go out the week of April 4, 2011 with Council's approval. Candidates will have six weeks to respond. Following discussion by the Council, the Council requested Mr. States proceed with the RFP and report back to them at the July Retreat.

OIP Portfolio Internal Staff/Resources Update: Mr. States reported that the BondEdge application was upgraded on March 21, 2011. Staff is currently interviewing applicants for the vacant OIP/Portfolio Manager I position.

July Board Retreat: Mr. States reminded the Council of the board retreat. The two-day retreat will be held at Quarry Oaks Golf Club, Ashland, NE. Topics at the retreat will be for continuing discussion of fixed income and the General Endowments and Miscellaneous Trusts. Board education on duty as a fiduciary will be given by Ms. Nancy Williams with HEK and Mr. Heinrich.

Agreements Executed Since Last Meeting: Mr. States reported that the representation agreement with Harding & Shultz has been renewed.

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Staff Travel: Mr. States reported that he had recently attended the Prudential Real Estate Investors' 2011 Spring Client Conference. Ms. Winkler attended the Cornerstone Advisory Committee Scheduling Meeting. Mr. Jurich attended the Ares Annual Investors meeting and met with several private equity managers. Upcoming managers conferences the staff will be attending are UBS and Sun Capital.

Mr. Vandolder and Mr. McLerran left the meeting at 1:16 p.m. and rejoined the meeting at 1:34 p.m.

NPERS DIRECTOR'S REPORT: 1:33 p.m. to 1:50 p.m. Ms. Chambers updated the Council on the following legislation that could affect NPERS:

LB 382 – Retirement Committee priority bill increases the contribution rates for school members. The Committee is considering increasing the rate .6% on 9/1/2011, from 8.28% to 8.88%, and another .9% in 2012, up to 9.78%. The employer match remains unchanged at 101% of the member rate. Beginning 7/1/2011, contribution rates for State Patrol members will increase from 16% to 19%. The employer contribution will also increase from 16% to 19%.

LB 509 – Retirement Committee priority bill, technical bill, includes provisions from LB's 246, 486, & 532. The bill allows surviving spouses of deceased State Patrol members to remarry and remain eligible for survivor benefits; it increases the School plan salary cap from 7% to 9% in 2012, changes the cap back to 8% in 2013, and removes the exemptions from the salary cap; and it provides for the potential transfer of certain Department of Labor employees to the State plan.

LB 679 – new judges and new members of the State Patrol would participate in the State Employees Cash Balance Benefit Plan.

LB 680 – new school plan members would participate in a cash balance retirement plan similar to the plan used for State Employees Cash Balance Benefit Plan.

LB 679 and 680 will need actuarial studies to determine the fiscal impact to the Plans. Ms. Chambers indicated that an RFP to select a vendor to perform the compliance audit will be issued this summer. Ms. Chambers also indicated that the PERB has adopted a new policy requiring monthly retirement benefits to be distributed by either direct deposit or by a VISA Debit Card.

Ms. Chambers reported that NPERS presented its Annual Report to the Legislature on March 15, 2011.

NEBRASKA COLLEGE SAVINGS PLAN: 1:50 p.m. to 2:05 p.m. Ms. Biar reported that the call center issues from the conversion have been resolved and that the move to the Kansas City, MO call center is on schedule. Ms. Biar reported that all four plans have approximately 185,000 accounts totaling more than \$2 billion, and that there have been 5,000 new accounts since the beginning of the calendar year.

CONSIDERATION OF THE DRAFT RULES/REGS FOR EXEMPTION OF NIC INVESTMENT MANAGEMENT STAFF FROM STATE PERSONNEL: 2:05 p.m. to 2:16 p.m. Mr. Heinrich reviewed the draft of the administrative rules relating to the exemption of NIC investment staff from the State Personnel System, which was included in the meeting book. The Council discussed the proposal and recommended under 001.01 include the language "The Council may offer any other benefits available to State employees under Nebraska law" and that under 001.05 include the language "The State Investment Officer may offer any other benefits available to State employees under Nebraska law". Mr. Heinrich discussed the rules process if the Council approved the proposed policies. Following additional discussion by the Council, Mr. Dinkel made the following motion: (1) Provide preliminary approval of the rule subject to satisfying the requirements of the formal rulemaking process; (2) Authorize Mr. States to initiate the rulemaking process, including scheduling a public hearing on the matter at a future NIC meeting. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Dinkel
	Ms. Werner-Robertson
	Dr. DeFusco
	Mr. Maginn

ABSTENT NOT VOTING:	Mr. Riffel
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The motion carried.

ROBB EVANS & ASSOC. (RECEIVER FOR WG TRADING CO.) V. NIC: 2:16 p.m. to 2:49 p.m. At 2:16 p.m. Mr. Maginn made the following motion: I move to enter into closed session. The subject matter of the closed session is the receipt of legal advice from counsel related to the lawsuit filed by the Receiver of WG Trading Company against the Nebraska Investment Council. The reason for the closed session is to maintain the confidentiality of such advice and communications related thereto. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Ms. Werner-Robertson Dr. DeFusco Mr. Maginn Mr. Dinkel
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ABSENT NOT VOTING:	Mr. Riffel
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The motion carried.

Ms. Werner-Robertson requested that only the voting and non-voting members of the Council, Mr. States, Mr. Heinrich, Mr. Engler, Mr. Jurich, Ms. Biar, Mr. Vandolder, and Mr. McLerran be present and all others in attendance were excused.

At 2:49 p.m. Mr. Maginn moved that the Council return to open session. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Ms. Werner-Robertson Dr. DeFusco Mr. Maginn Mr. Dinkel
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ABSENT NOT VOTING:	Mr. Riffel
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The motion carried.

PUBLIC COMMENT ON THE AGENDA: 2:49 p.m. to 2:50 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 2:50 p.m. Mr. Maginn moved to adjourn the meeting. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Maginn Mr. Dinkel Ms. Werner-Robertson Dr. DeFusco
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ABSENT NOT VOTING:	Mr. Riffel
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The motion carried.


Kathy Dawes, Secretary